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May 22, 1998

Ex Parte

Ms. Magalie Roman Salas
Secretary
Federal Communications Commission
1919 M Street, NW
Room 222
Washington, DC 20554

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MAY 22 1998

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Re: CC Dockets 96-262, 96-45 and 97-160

Dear Ms. Salas:

Yesterday, Mr. F. Gumper and I, representing Bell Atlantic, met with Mr. J. Schlichting, Deputy Chief of the Common Carrier Bureau. The purpose of the meeting was to discuss Bell Atlantic's proposal for access pricing flexibility. The attached charts were used as a basis for discussion.

Also discussed during this meeting were various options for recovery of Universal Service fund obligations that have been put forth by ATT and MCI in ex parte letters filed recently with the Commission. The Bell Atlantic representatives expressed no firm positions on the options presented by ATT and MCI.

Sincerely,

A handwritten signature in cursive script, appearing to read "Susanne Guyer".

Susanne Guyer

Attachments

cc: J. Schlichting

A NEW APPROACH TO PRICING FLEXIBILITY AND ACCESS REFORM



May 21, 1998

Pricing Flexibility Principles and Benefits

- An administratively simple process using objective, verifiable criteria is required
 - » With 163 LATAs in 50 states and multiple services offered in each, the FCC could be inundated with individual pricing flexibility requests
- Bell Atlantic process will provide:
 - » a comprehensive framework for streamlined case-by-case resolution of requests, and
 - » reduced administrative burdens for both the FCC and applicants

Proposed Process For Pricing Flexibility

- A three phase framework under which pricing flexibility increases with competition
- ILECs may seek flexibility for a service group by a self-defined market area no smaller than a LATA
 - » Competition will evolve differently for different services
 - Switched - multiline business vs. single line bus. & res.
 - Transport - Special Access, Direct Trunked Transport & Tandem Switched Transport
 - » The ILEC assumes the burden of proving the threshold for the criteria for the entire market area
 - larger areas require burden of showing for entire area
 - smaller areas require burden of multiple showings

The Pricing Flexibility Proposal's Safeguards

- Phase I provides flexibility for downward price deaveraging only
 - » No consumer rate increases in rural high cost areas
- Phase II provides limitations on the amount of upward price deaveraging
 - » Rural high cost consumers protected from unreasonable rate increases

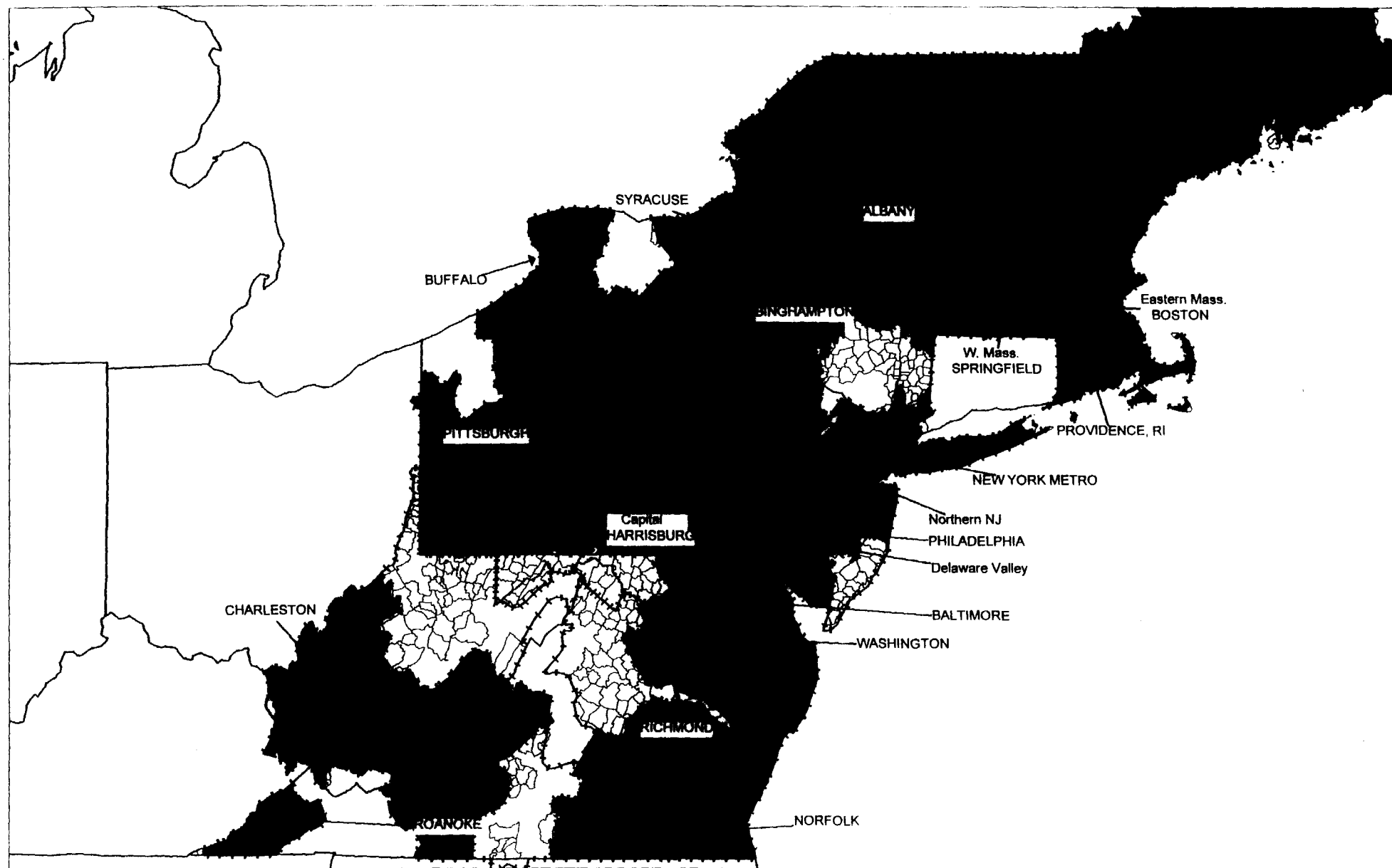
Criteria For Pricing Flexibility

	Phase I Competitive Presence	Phase II Increased Competition	Phase III Substantial Competition
<i>Transport</i>	100 DSI – Equivalent collocated cross-connects state wide	Competitors serve, or have access to, 25% of the LATA	Competitors serve, or have access to, 75% of the LATA
<i>Switched Access</i>	<ul style="list-style-type: none"> • Interconnection Agreements • Interim number portability • 100 UNE loops in Service 	Competitors serve, or have access to, 25% of the LATA	Competitors serve, or have access to, 75% of the LATA

How to Determine Competitive Percentages

- Classify wire centers (WCs) as competitive if:
 - » **Special Access**
 - Competitor has collocated facilities, UNEs, or its own facilities in the geographic area served by the WC
 - » **Switched Transport**
 - Competitor has collocated facilities
 - » **Switched Access**
 - Competitors have collocated facilities **and** have purchased UNEs by class of customer (MLB vs SL); **or**
 - Competitors are providing service with UNEs, ported TNs or their own TNs in a WC serving area by class of service
- Calculate the % of ILEC demand in competitive WCs to the total ILEC demand in the market area.

Special Access



 LATA

 Wire Center

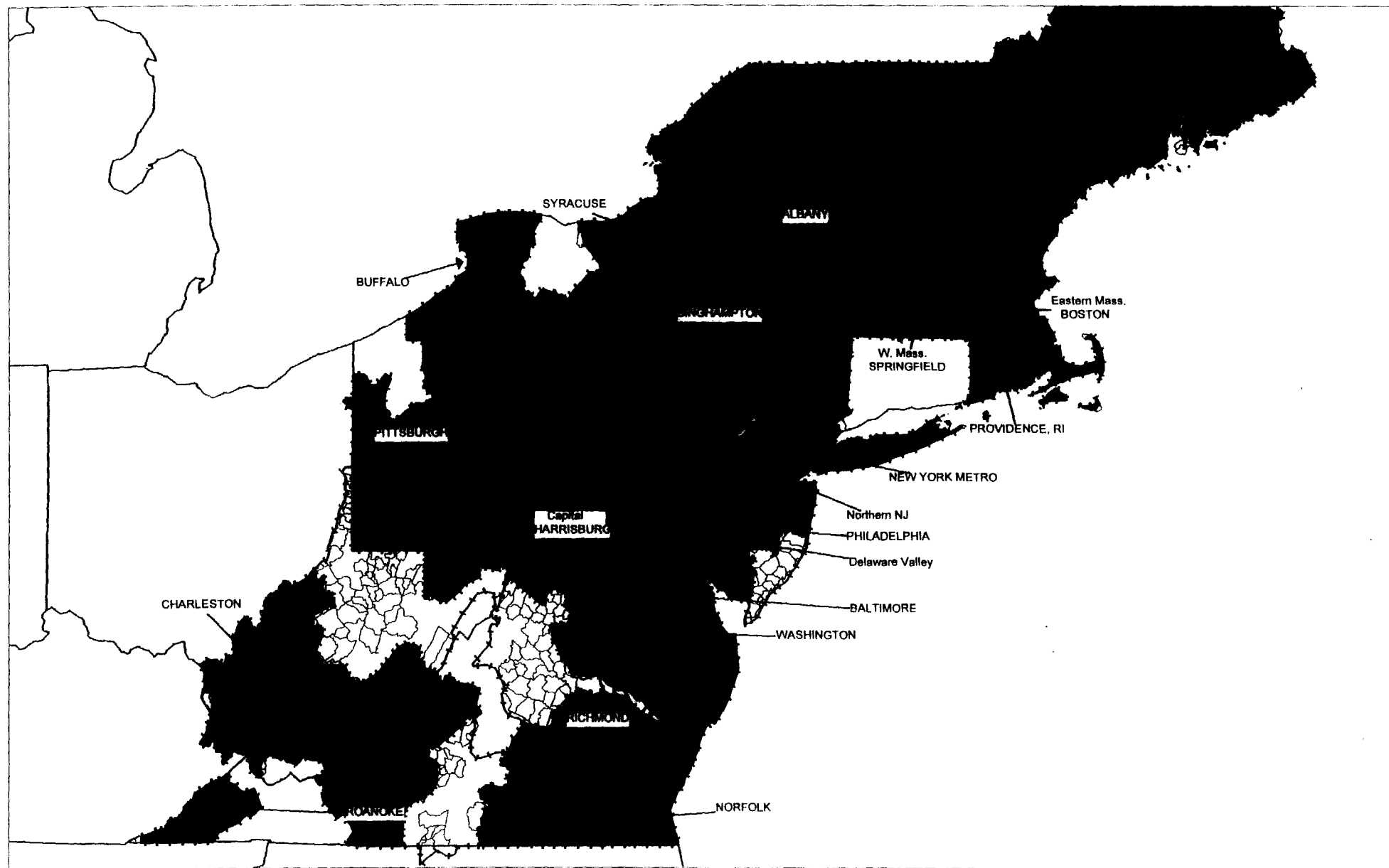
 Phase III






 Phase II

 Phase I, 0

1/1/98

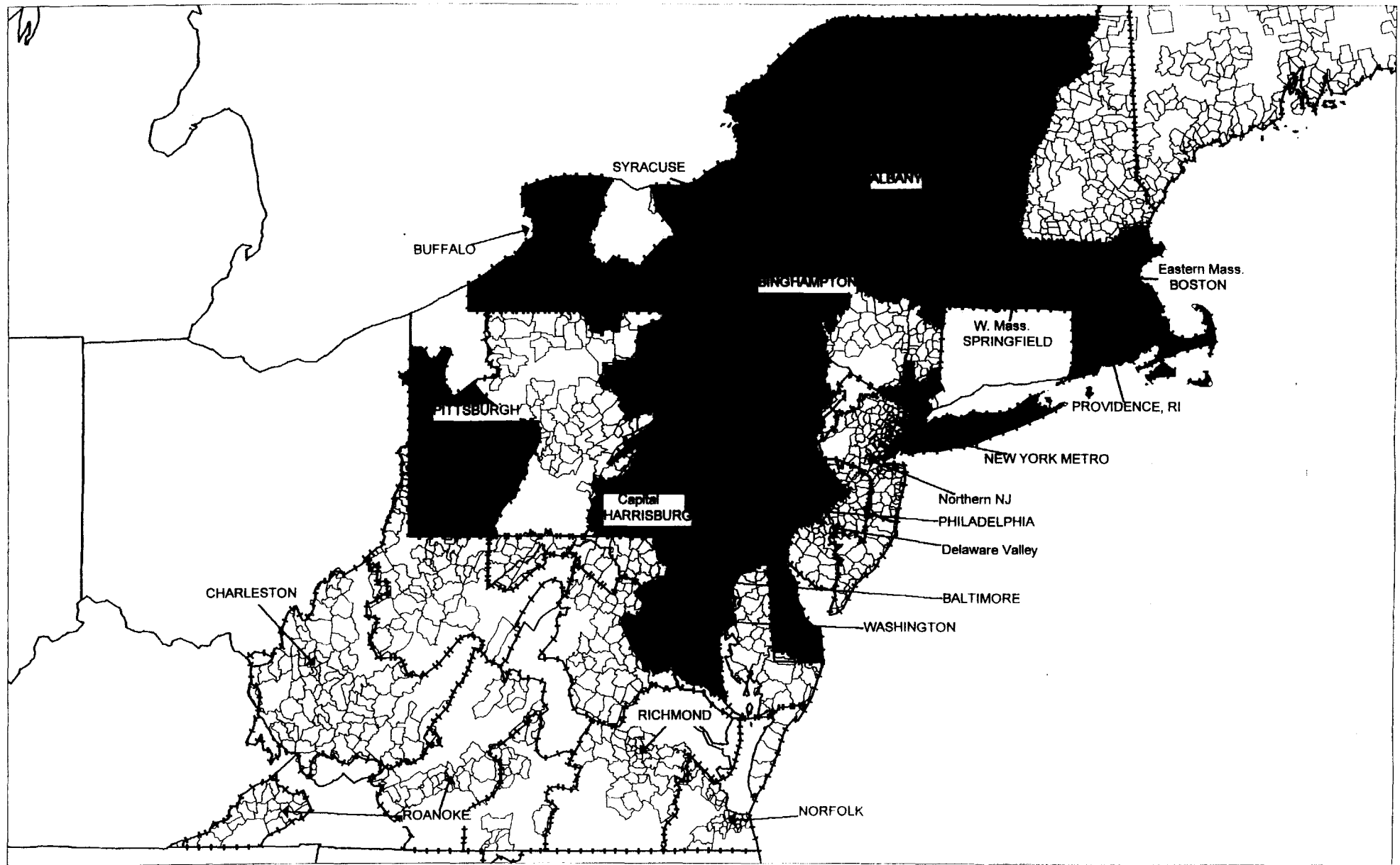
Switched Transport



 LATA  Wire Center  Phase III  Phase II  Phase I, 0

1/1/95

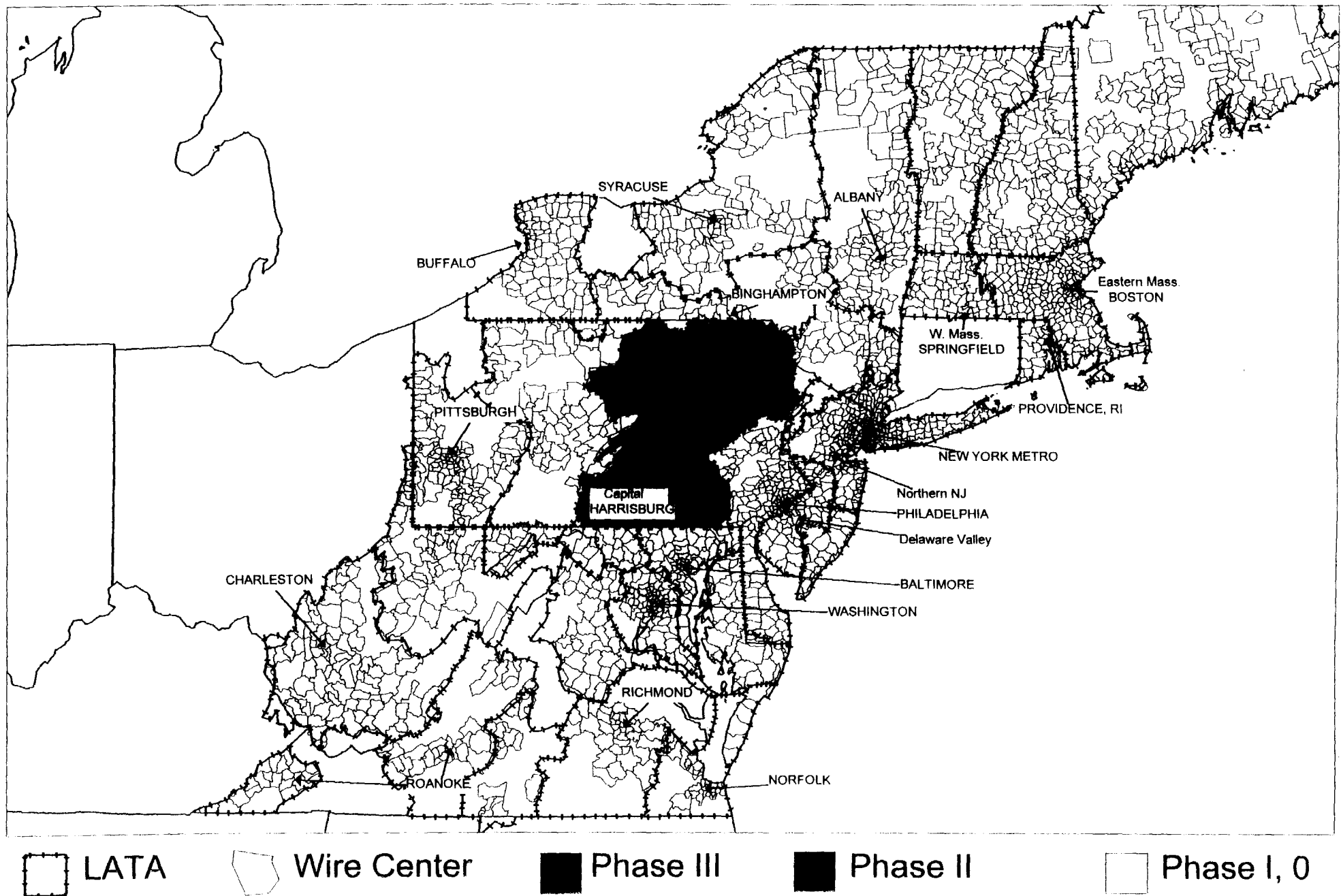
Multiline Business



 LATA
 Wire Center
 Phase III
 Phase II
 Phase I, 0

1/1/98

Residential and Single Line Business



Pricing Flexibility Granted Transport Markets

<u>Services</u>	<u>Phase I*</u>	<u>Phase II</u>	<u>Phase III</u>
Special Access	Growth option with V&T <i>Promotional offerings</i>	Respond to RFPs Increase upper service band limits to 10%	Services removed from Price Cap regulation
Switched Transport	Growth option with V&T Target TIC reductions to TIC in collocated WCs <i>Promotional offerings</i>	Respond to RFPs Increase upper service band limits to 10%	Services removed from Price Cap regulation

* An expedited process should also be adopted to enable the ILECs to respond to the RFPs of end users due to competitive necessity.

Bell Atlantic Already has Significant Statewide Pricing Flexibility in State Jurisdictions for Similar Private Line Services

<u>SERVICE DESCRIPTION</u>	<u>NJ</u>	<u>PA</u>	<u>DE</u>	<u>MD</u>	<u>VA</u>	<u>DC</u>	<u>WVA</u>	<u>NY</u>	<u>ME</u>	<u>RI</u>	<u>MA</u>
High Capacity (1.544 MB & Above)											
Digital Data Service											
Metallic - Local Channels - 1000 Series - Telegraph											
Dedicated Voice Grade – Program Audio											
Frame Relay Service											
Switched 56 Kilobit											
Switched Multimegabit Data Service											
Dedicated Derived Channel 9000 Ser.											
All other											

Shading indicates where pricing and packaging flexibilities and broad customer specific pricing flexibilities for business services are permitted.

Notes: New Hampshire and Vermont are under rate of return regulation. Business services competitive reclassification filed for and pending in Pennsylvania.

Pricing Flexibility Granted Switched Access Markets

<u>Services</u>	<u>Phase I*</u>	<u>Phase II</u>	<u>Phase III</u>
ML business	Deaverage ML PICCs by UNE loop zone V&T PICC pricing Deaverage ML SLC by UNE loop zone Deaverage <u>overflow</u> ML Bus O/T MOU by UNE loop zone Promotional offerings	Respond to RFPs Growth option with V&T plans Deaverage LS rate element by LATA	Services removed from Price Cap regulation
SL business and residence	Deaverage PICCs by UNE loop zone and class of customer V&T PICC pricing Promotional offerings	Respond to RFPs Deaverage LS rate element by LATA Deaverage <u>overflow</u> O/T MOU by UNE loop zone & class of customer Deaverage SLCs by UNE loop zone & class of customer	Services removed from Price Cap regulation

* An expedited process should also be adopted to enable the ILECs to respond to the RFPs of end users due to competitive necessity.

Price Cap X-Factor Reductions

- The X-Factor should be an incentive to ILECs to facilitate competition
- **Step I** - when 50% of the ILEC's total interstate access revenues are under Phase I, II or III, then eliminate Consumer Productivity Dividend (CPD)
 - » The CPD is an additional .5% added to the X-Factor above and beyond historical productivity growth
- **Step II** - when 25% or more of the ILEC's total interstate access revenues are in Phases II or III
 - » Corresponding reductions in the X-Factor as competitors offer service to larger percentage of the market (e.g., 35% of revenues in Phase II or III then X reduced by 35%)
 - » As competition grows, ILECs will lose the reliable expectation of economies of scale and productivity growth will slow